

Economic and Revenue Outlook

Presented to
Washington Public Utility District Association

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Chief Economist & Executive Director

March 17, 2016
Olympia, Washington



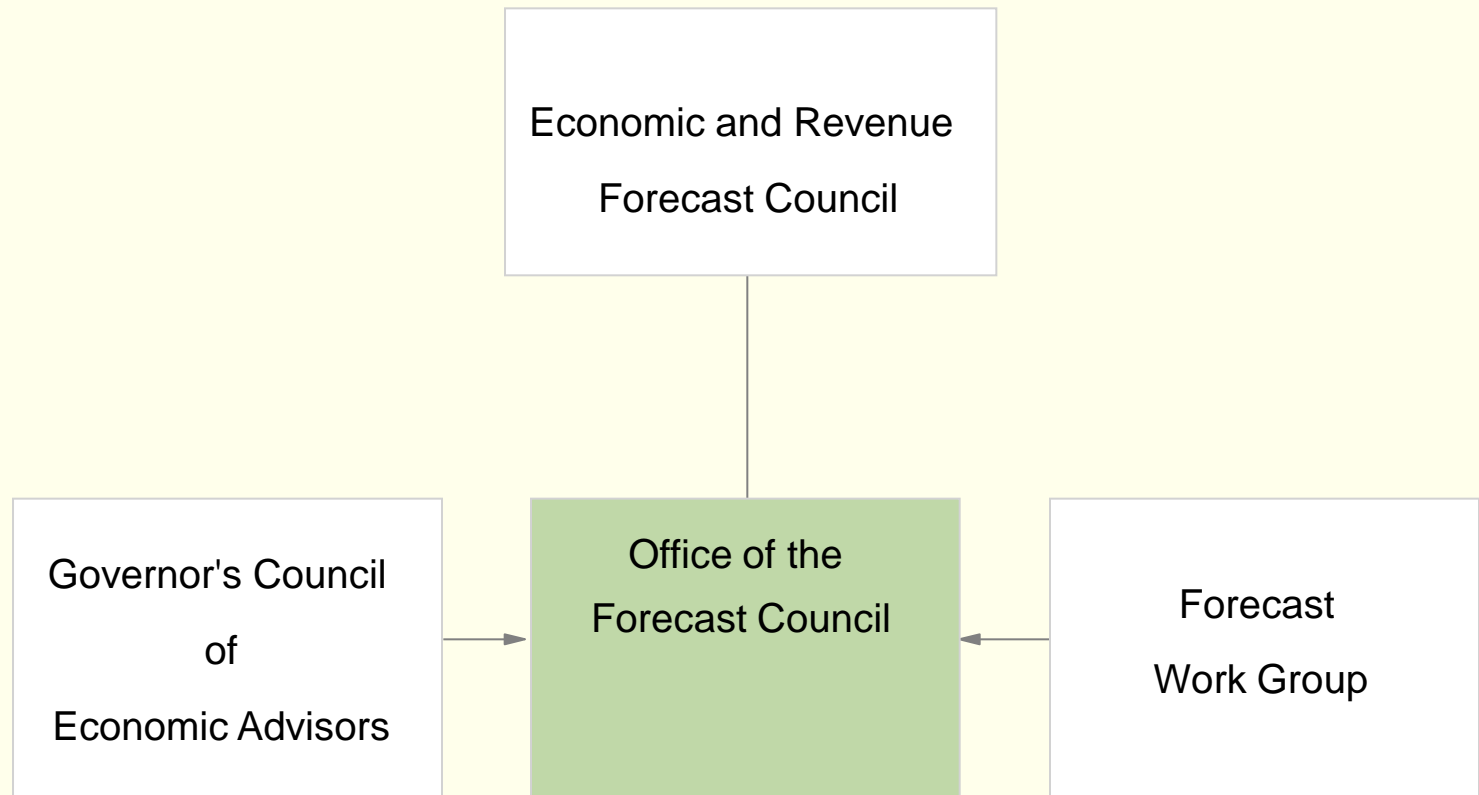
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Forecast Process in Washington State

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five



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Summary

- Our economic forecast expects continued growth in the U.S. and Washington economies but at a slightly slower pace than in November and with lower inflation
- Oil prices declined dramatically since November; moderate growth is expected over the forecast period
- Risks to the baseline include slowing global and U.S. economic growth, the impact of a stronger dollar on exports, and weaker manufacturing activity



Economic news continues to suggest risks to forecast

Upside:

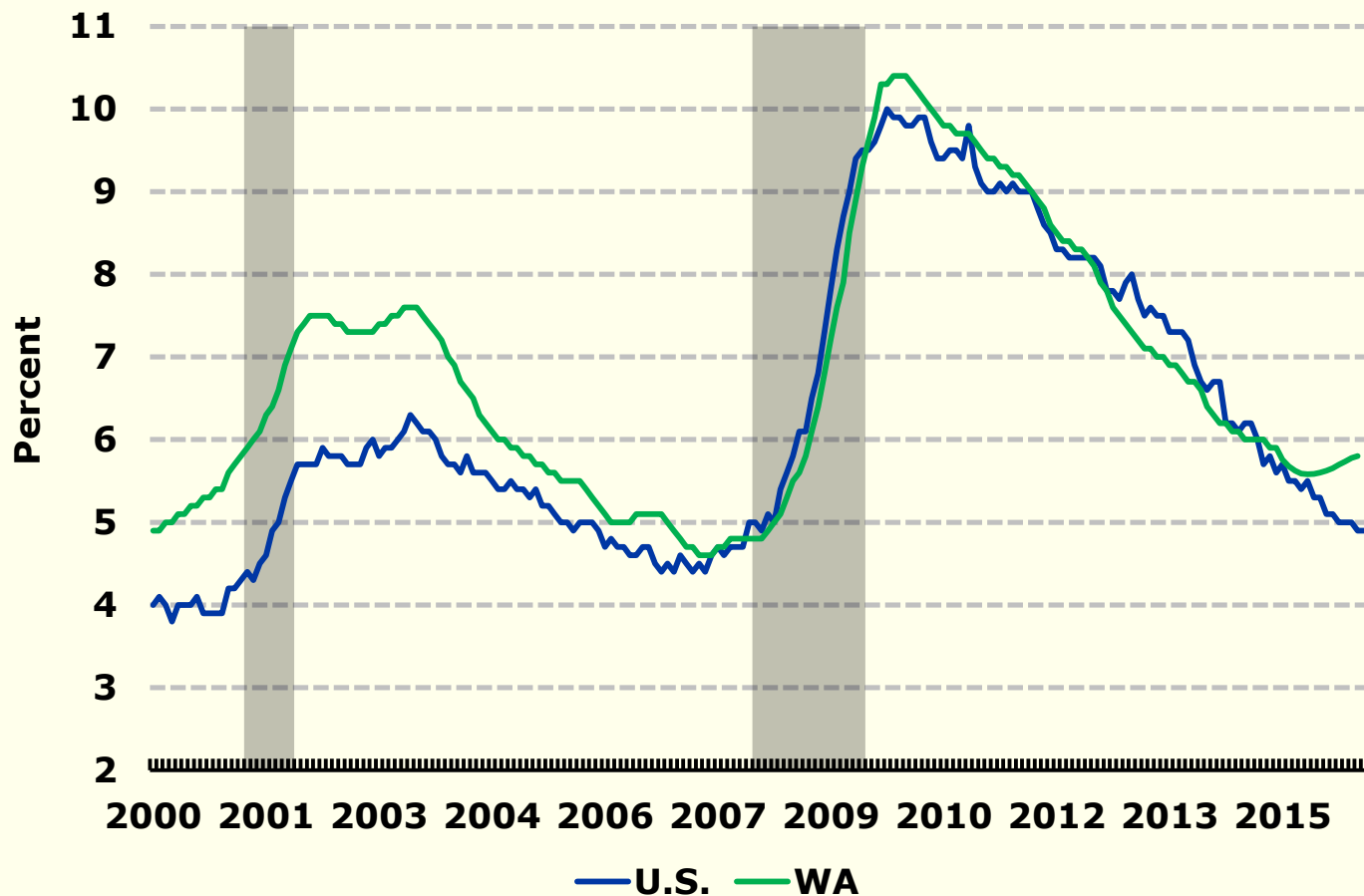
- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slower U.S. GDP growth
- Slowing global economy
- Negative impact of stronger dollar on exports
- Stock market volatility



U.S., WA unemployment rates trending down



Source: Bureau of Labor Statistics; U.S. data through Feb. 2016; WA data through Jan. 2016

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Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Feb. 2016: 28%

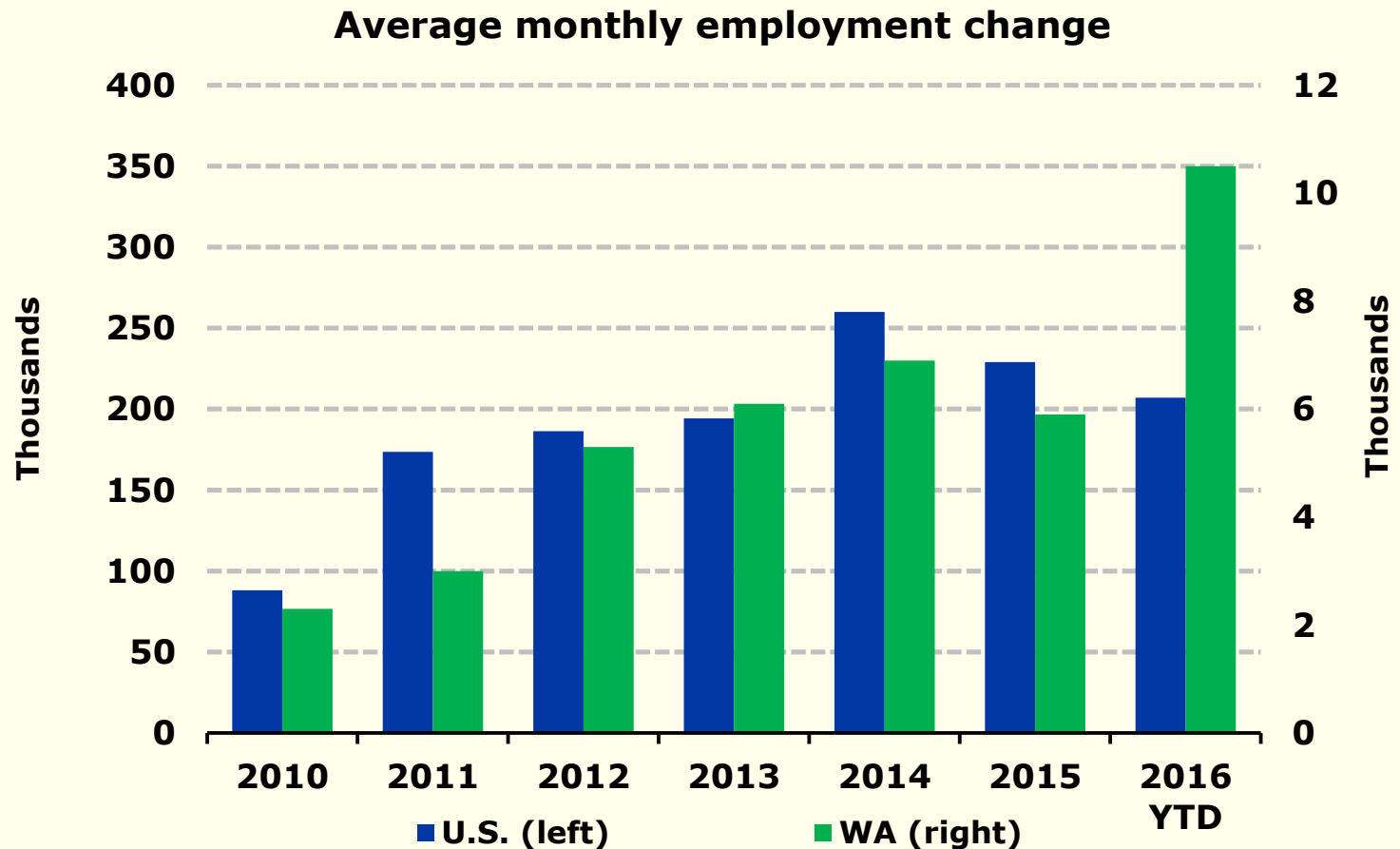


Source: Bureau of Labor Statistics; data through February 2016

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Job creation slightly weaker in 2015 than 2014; WA strong in January 2016



Source: Bureau of Labor Statistics, ERFC; U.S. data through Feb. 2016; WA data through Jan. 2016

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Average U.S. wage growth has turned positive but slowed in January

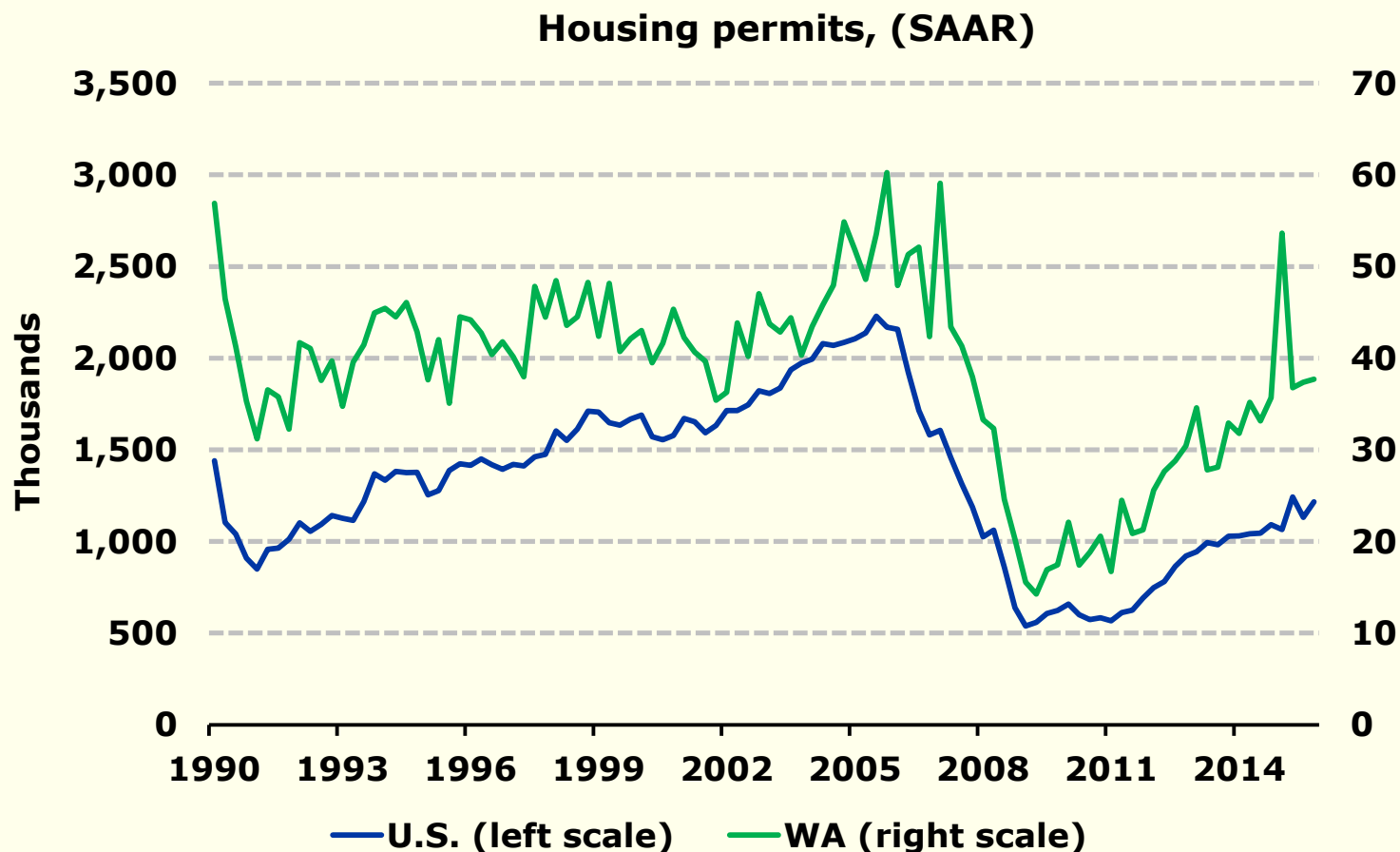


Source: U.S. Bureau of Labor Statistics, data through Jan. 2016

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Both U.S. and WA housing permits trending up since 2011

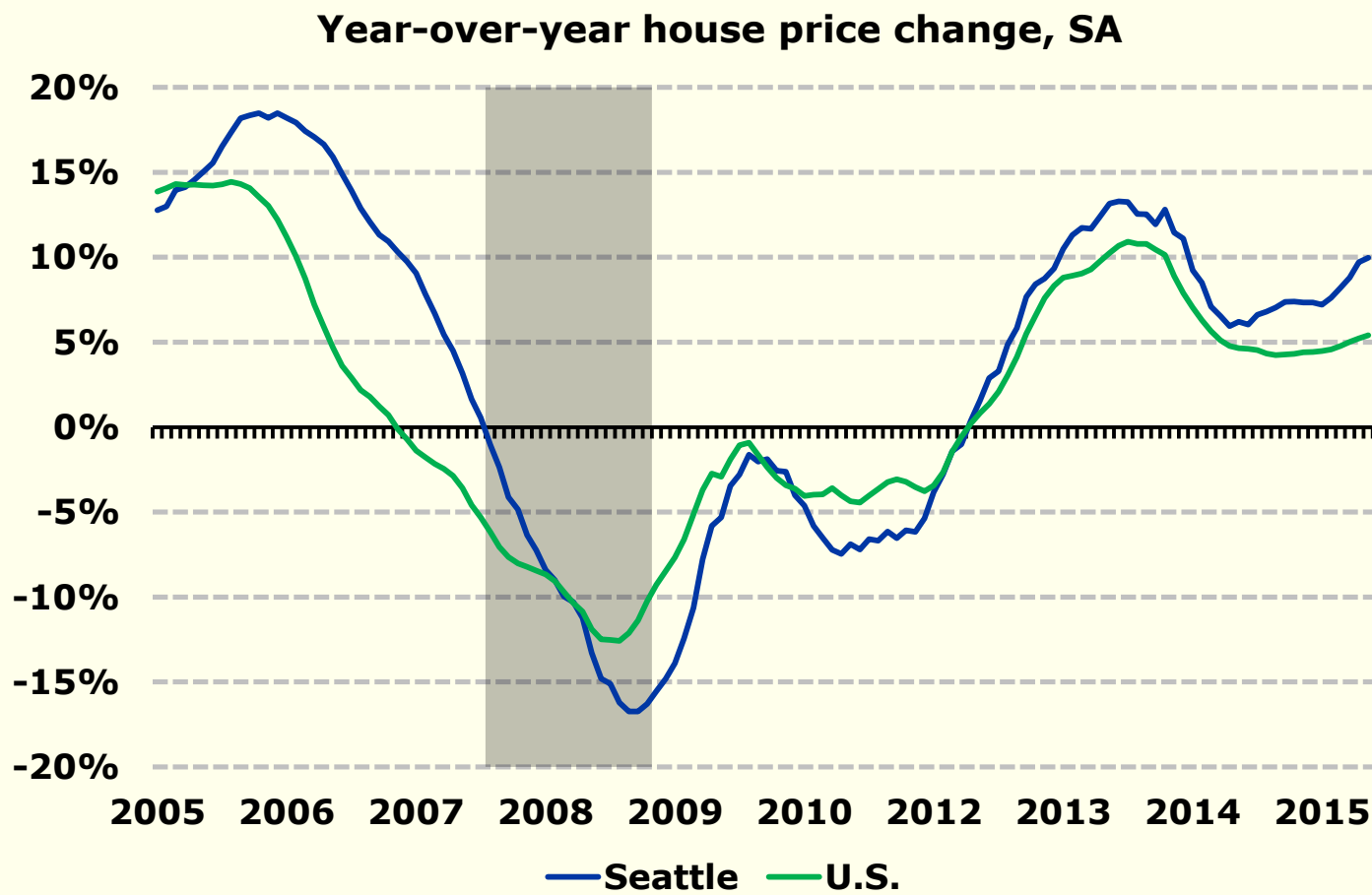


Source: U.S. Census Bureau, data through 2015 Q4

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Seattle home prices have been rising faster than prices nationally



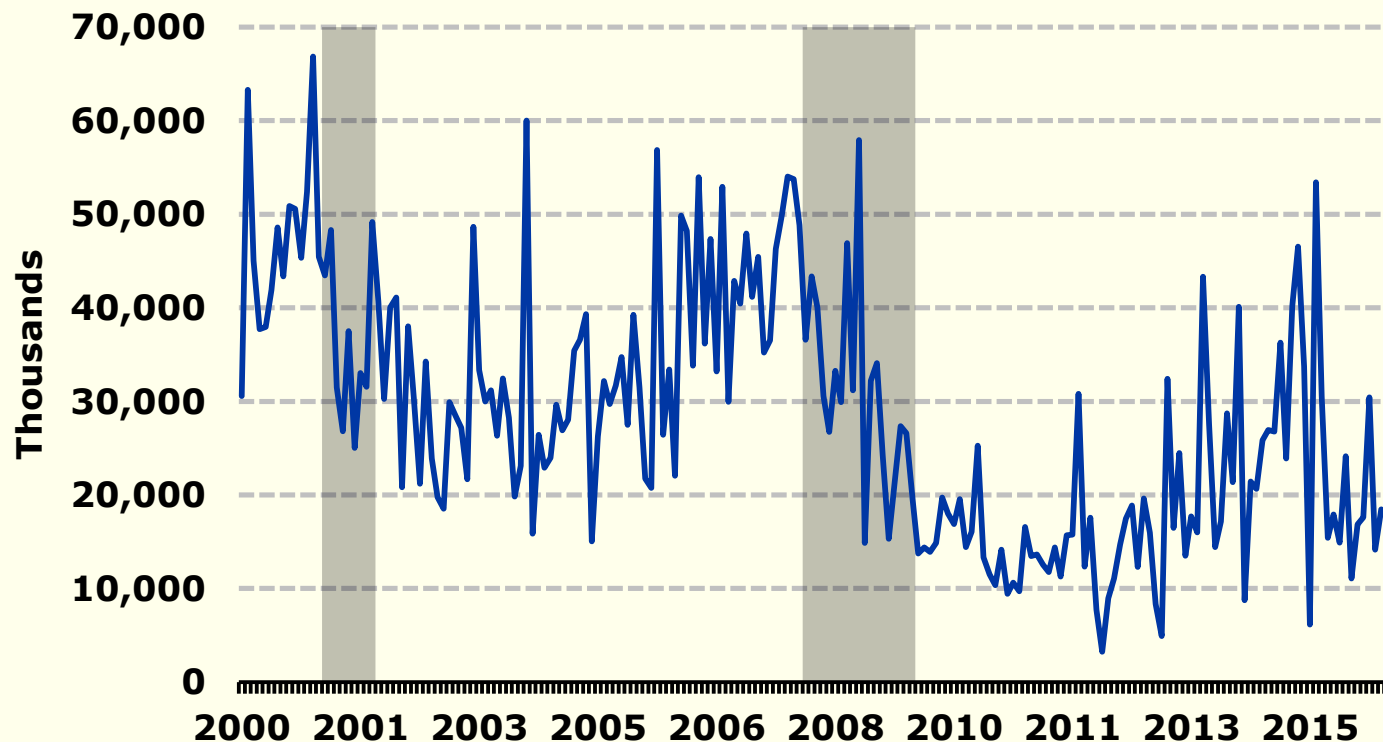
Source: S&P/Case-Shiller; data through Dec. 2015

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Nonresidential construction activity appears to be slowing

**Square feet under contract, WA nonresidential projects
(SAAR)**

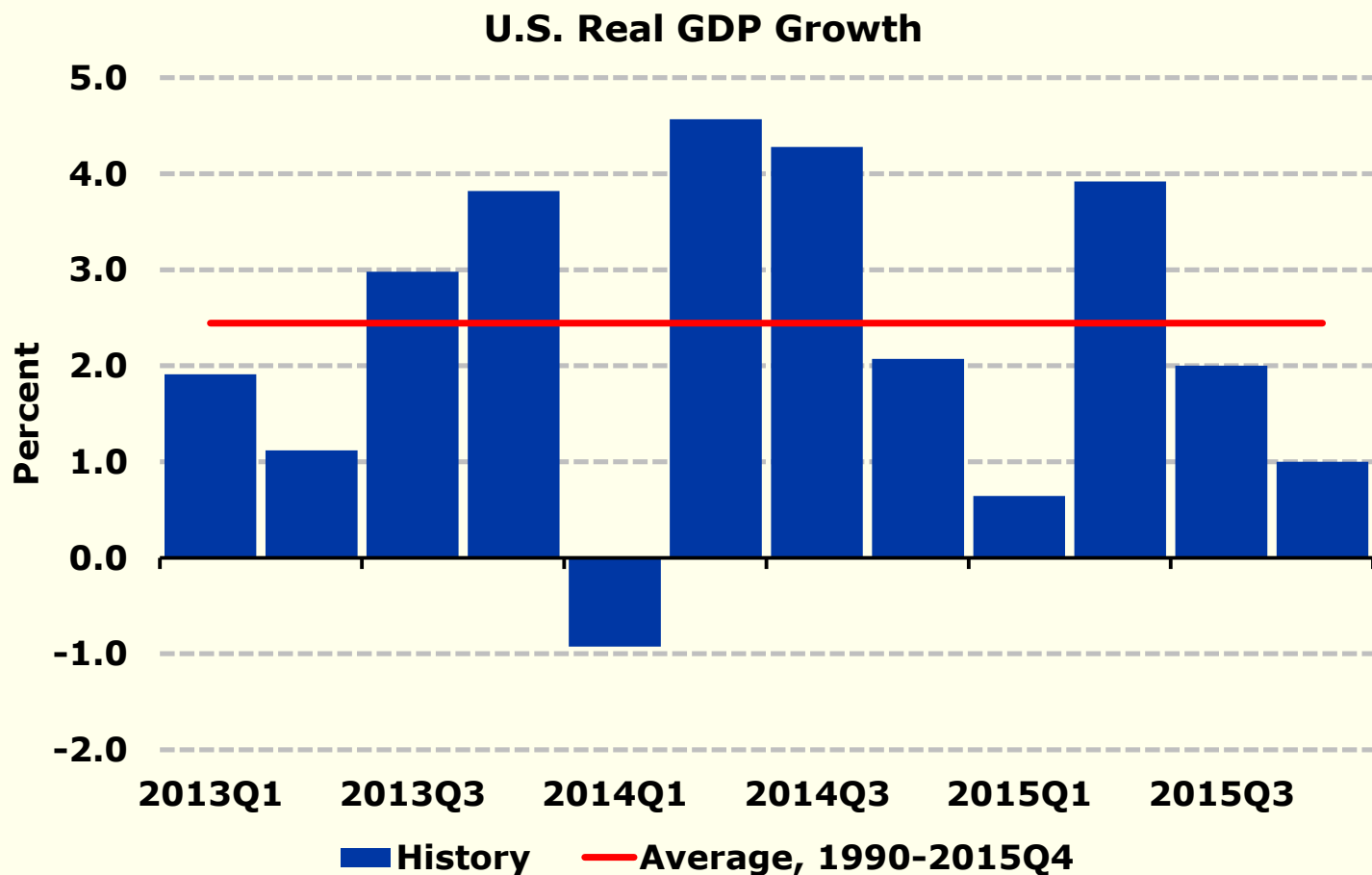


Source: Dodge Data & Analytics; data through Jan. 2016

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U.S. economic growth weakened in the third and fourth quarters

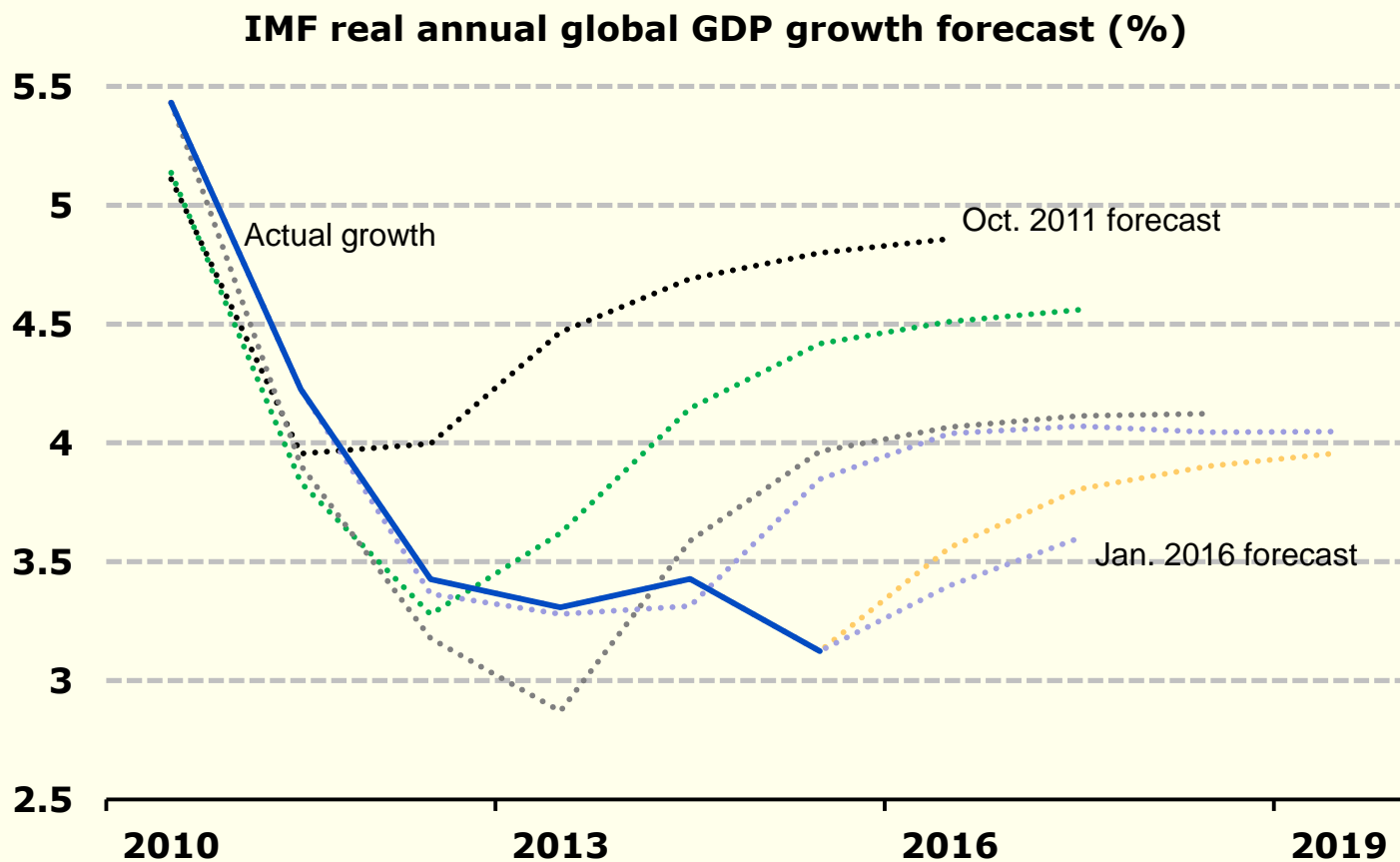


Source: U.S. Dept. of Commerce, BEA, data through 2015Q4

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Global GDP forecasts have been consistently revised down

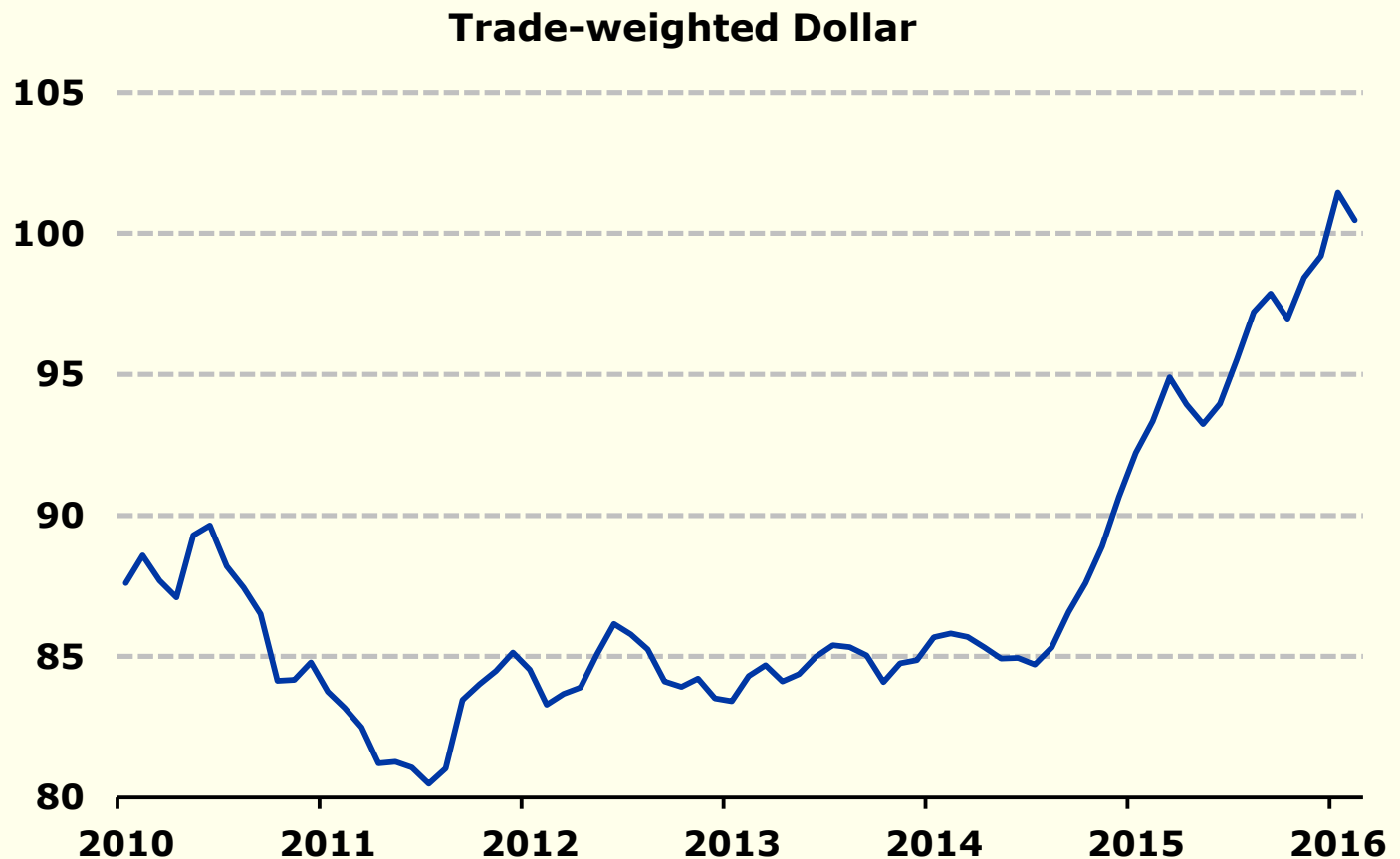


Source: International Monetary Fund, World Economic Outlook; historic data through 2015

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The dollar has increased in value relative to currencies of U.S. trading partners

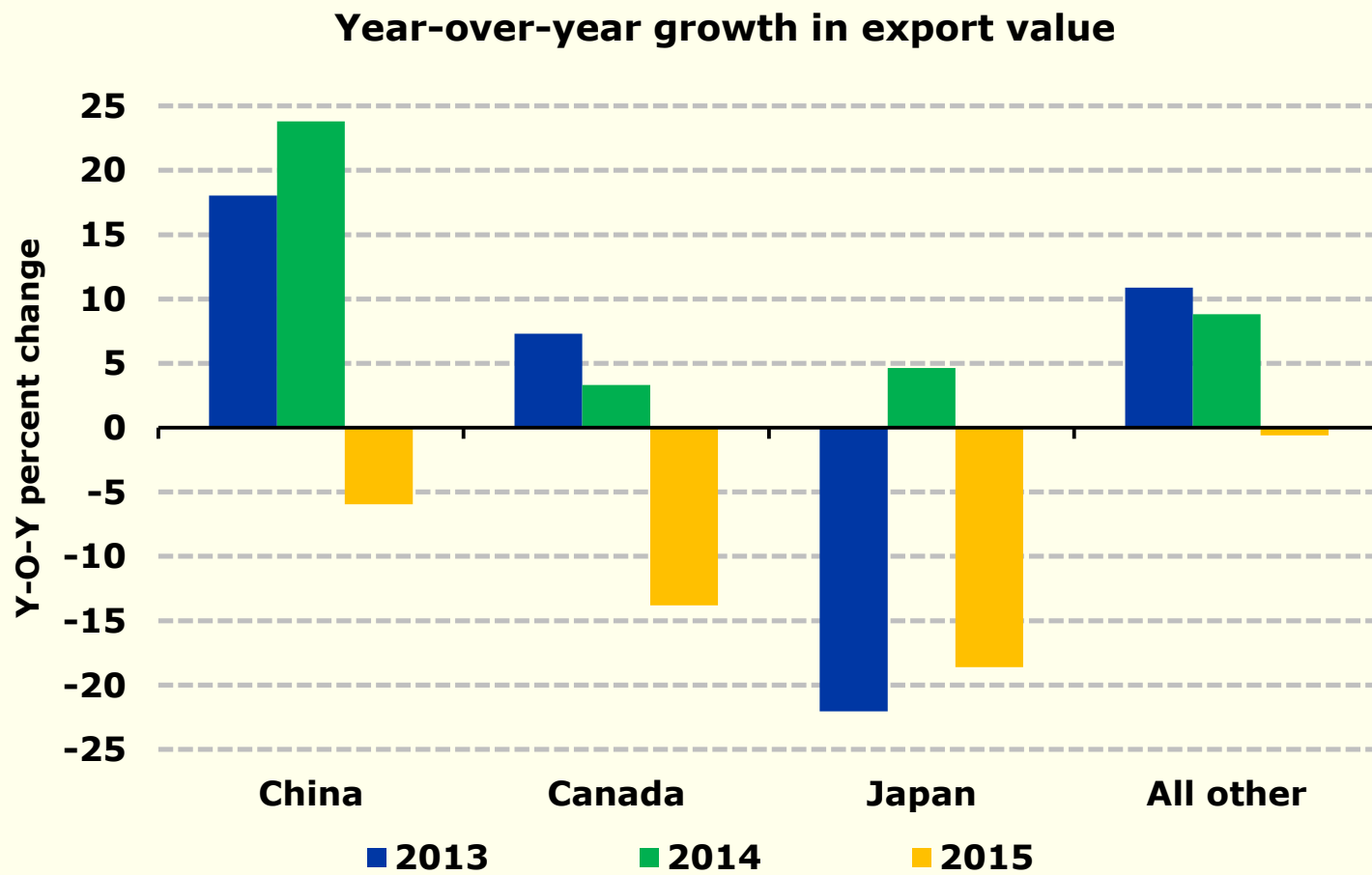


Source: Federal Reserve; data through February 2016

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WA exports in 2015 declined for the first time since 2009

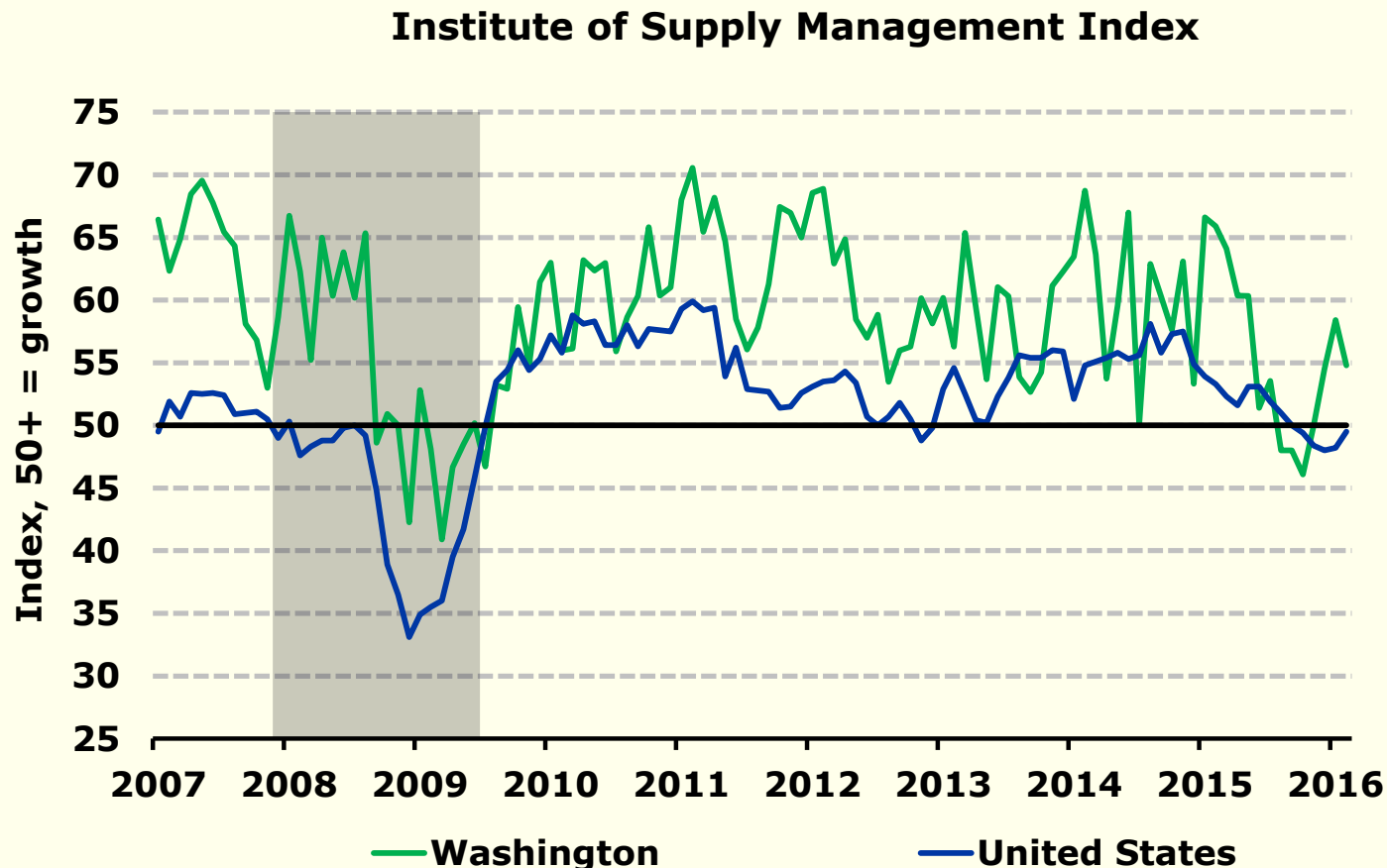


Source: WISERTrade; data through December 2015

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Manufacturing: slowing nationally, improving in Washington



Source: ISM; data through Feb. 2016

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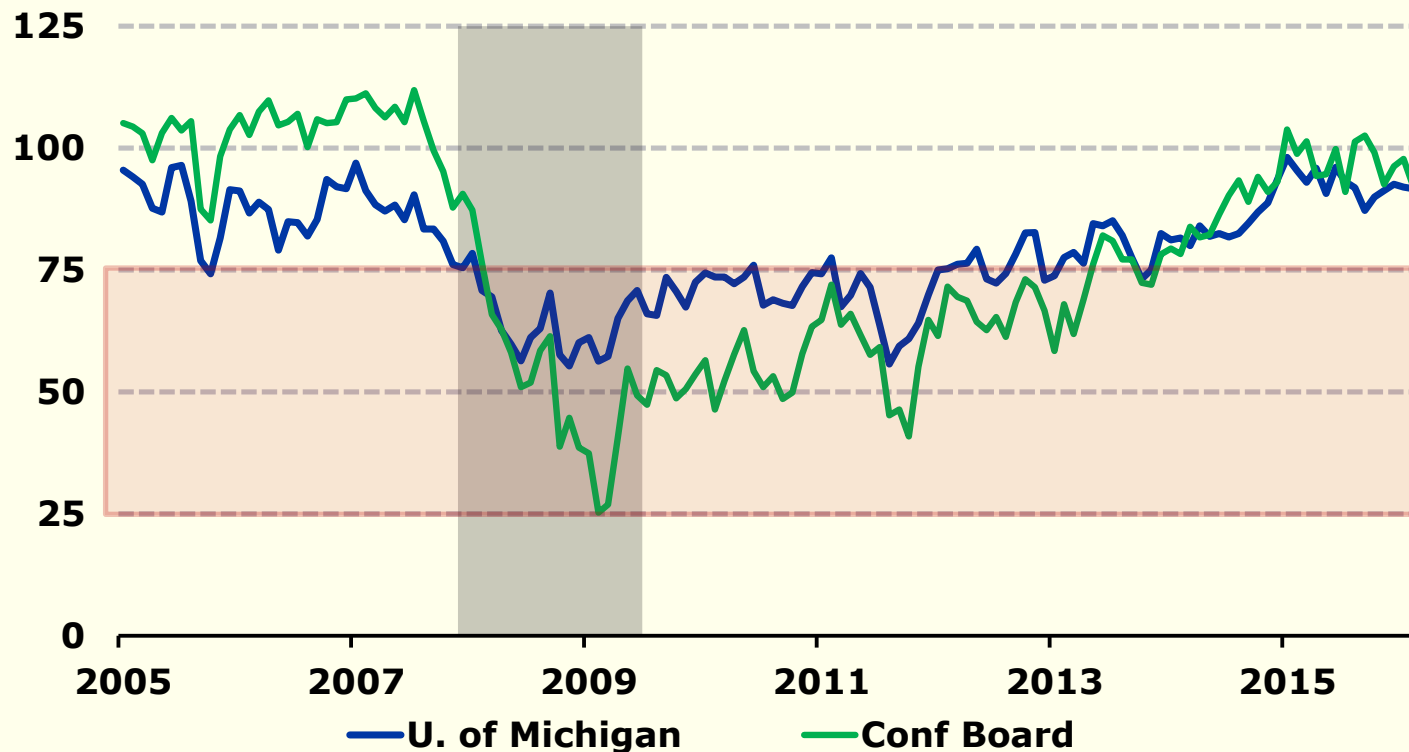


Conference Board, U. of Michigan indexes both down in February

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

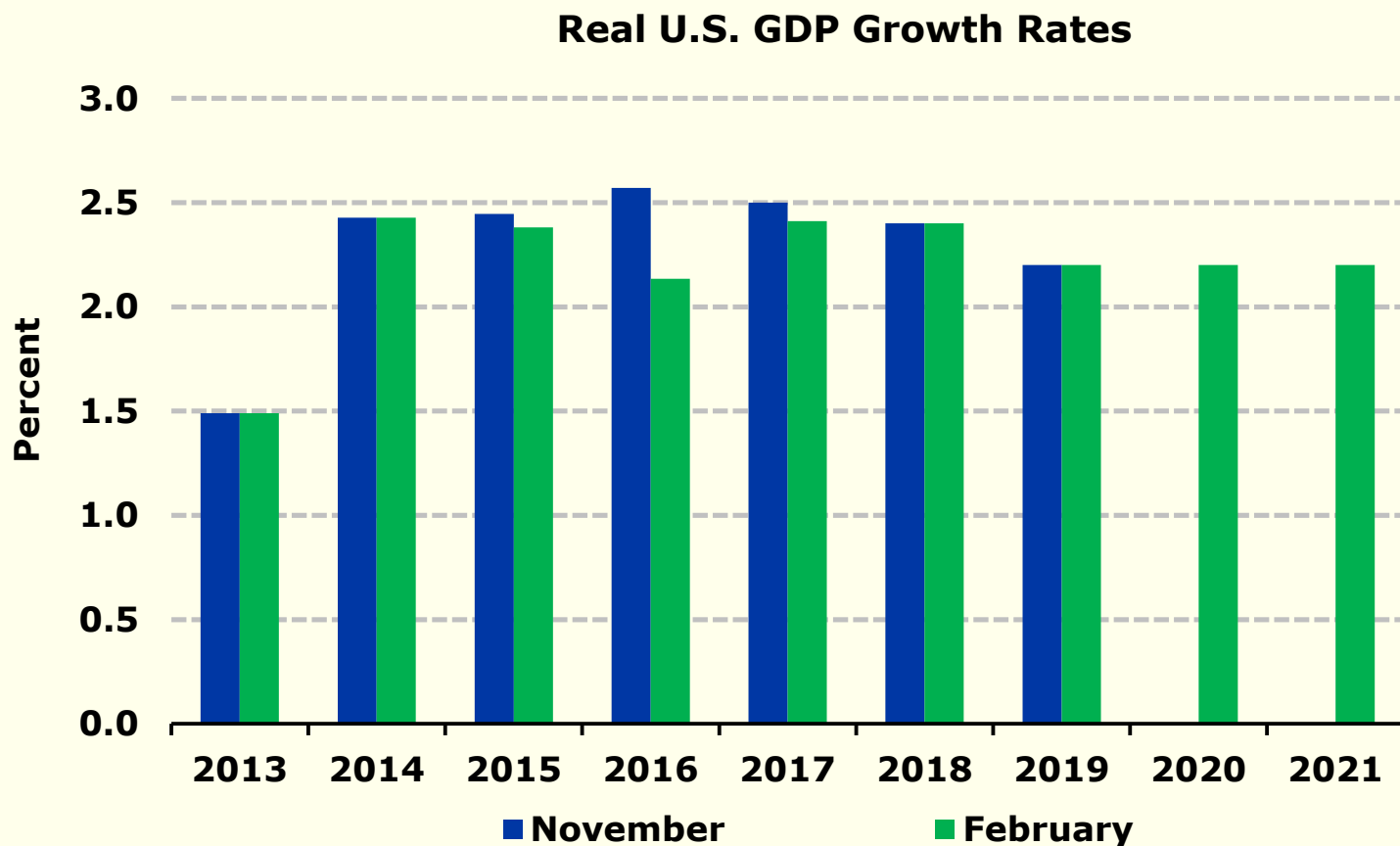


Sources: University of Michigan, Conference Board; data through February 2016

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Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast

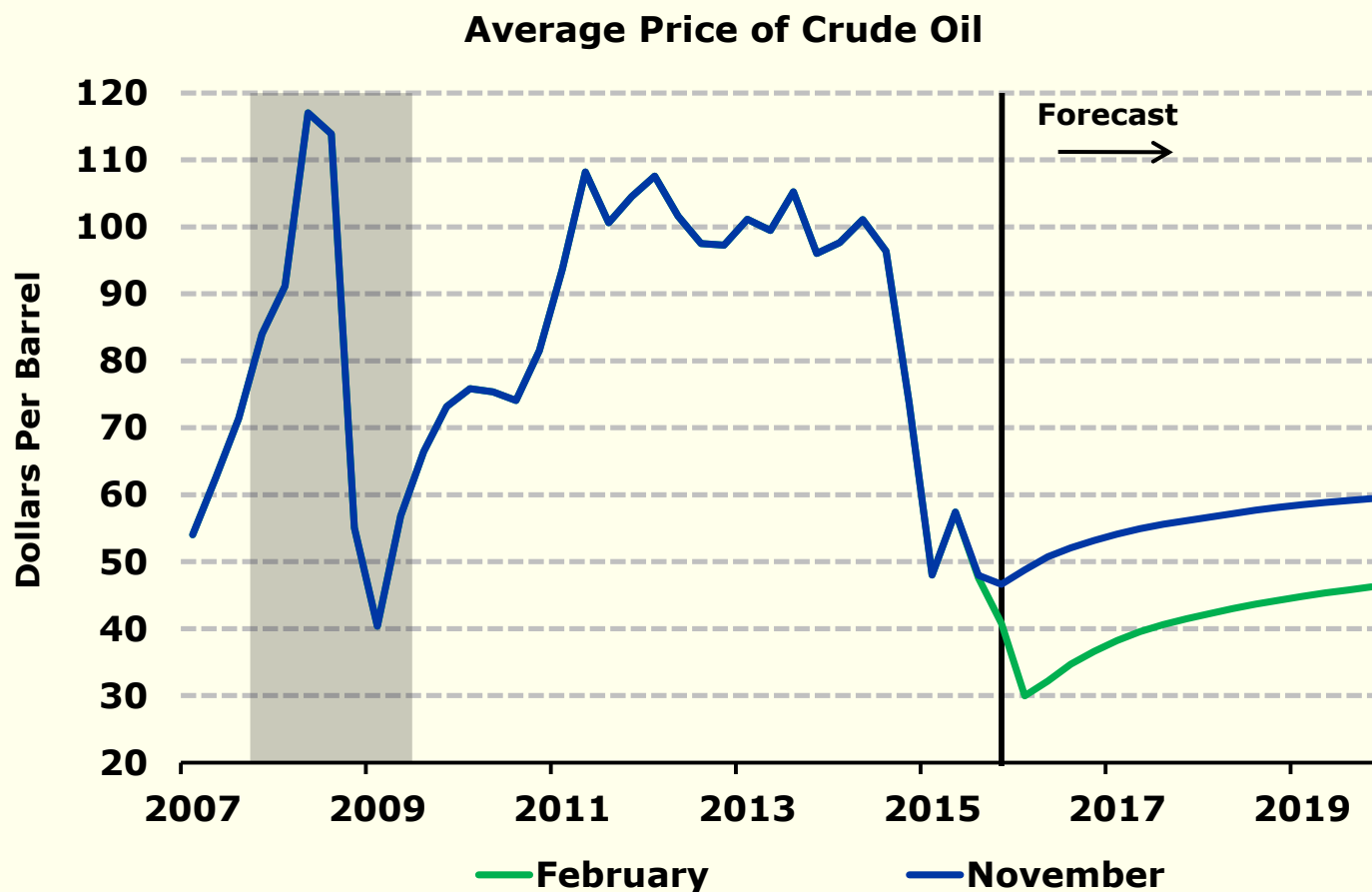


Source: ERFC February 2016 forecast; historical data through 2015

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Oil prices have fallen since the November forecast

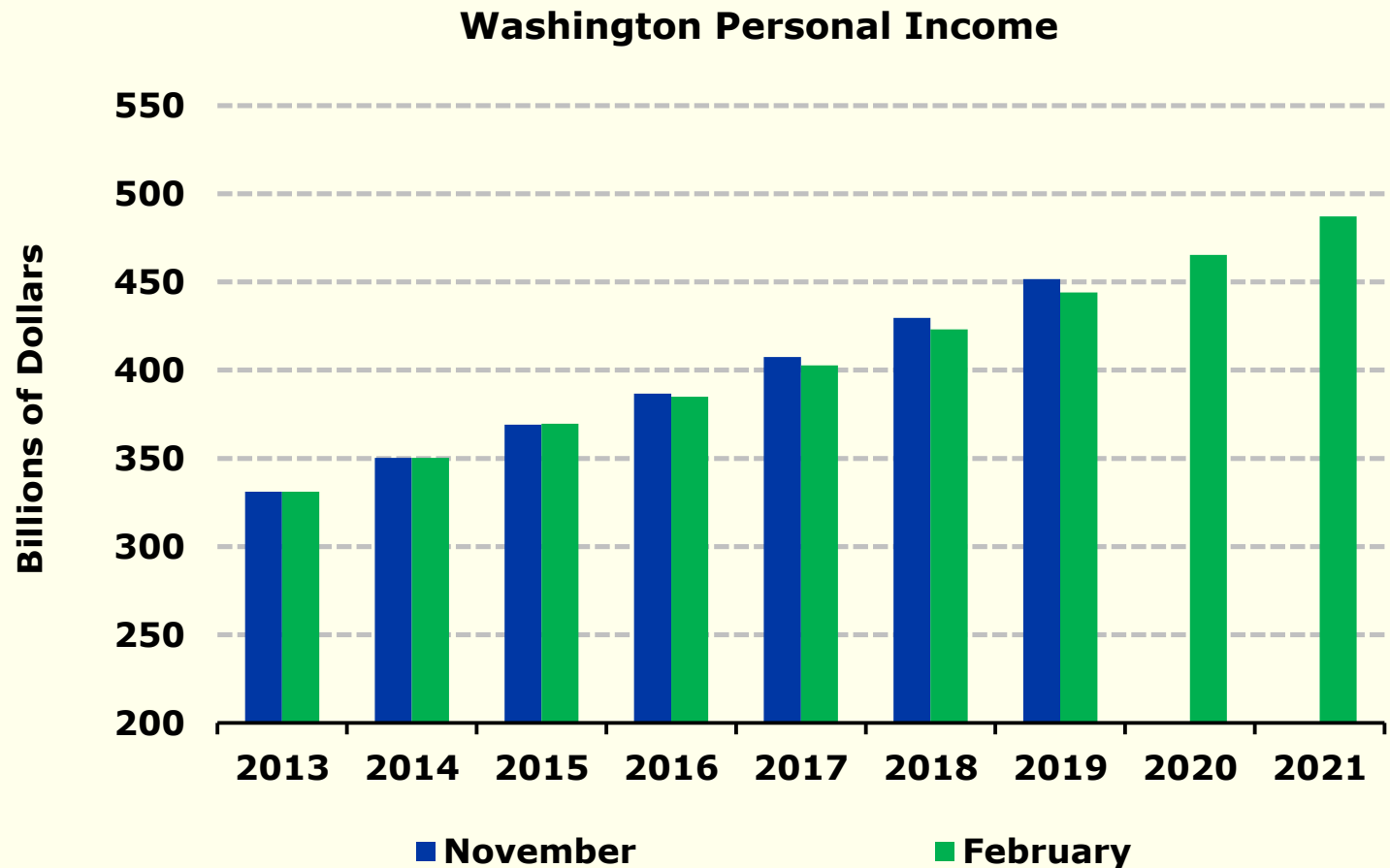


Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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Washington personal income is lower in 2016 – 2019 compared to the November forecast

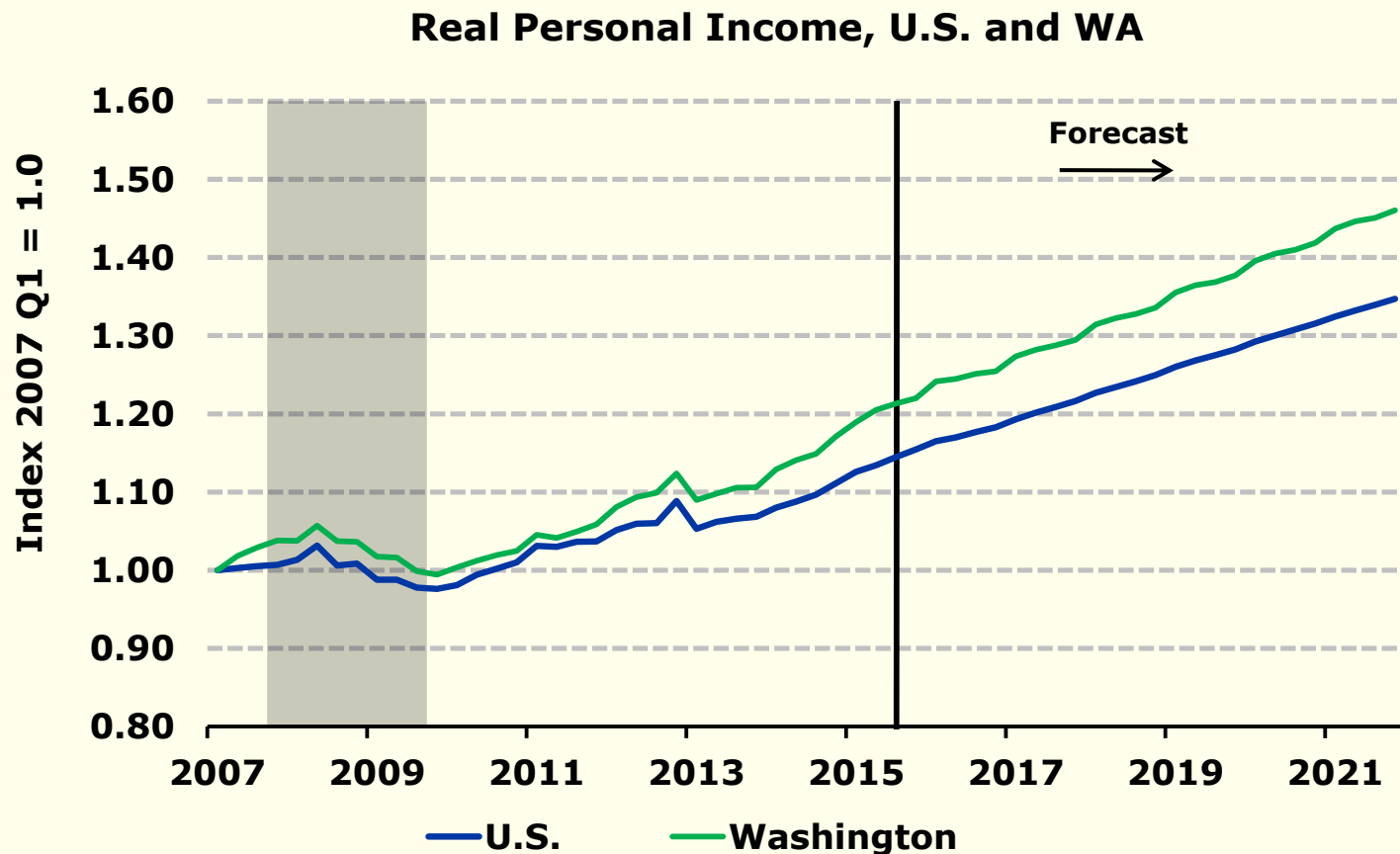


Source: ERFC February 2016 forecast; historical data through 2015

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State personal income will continue to grow slightly faster than the U.S.



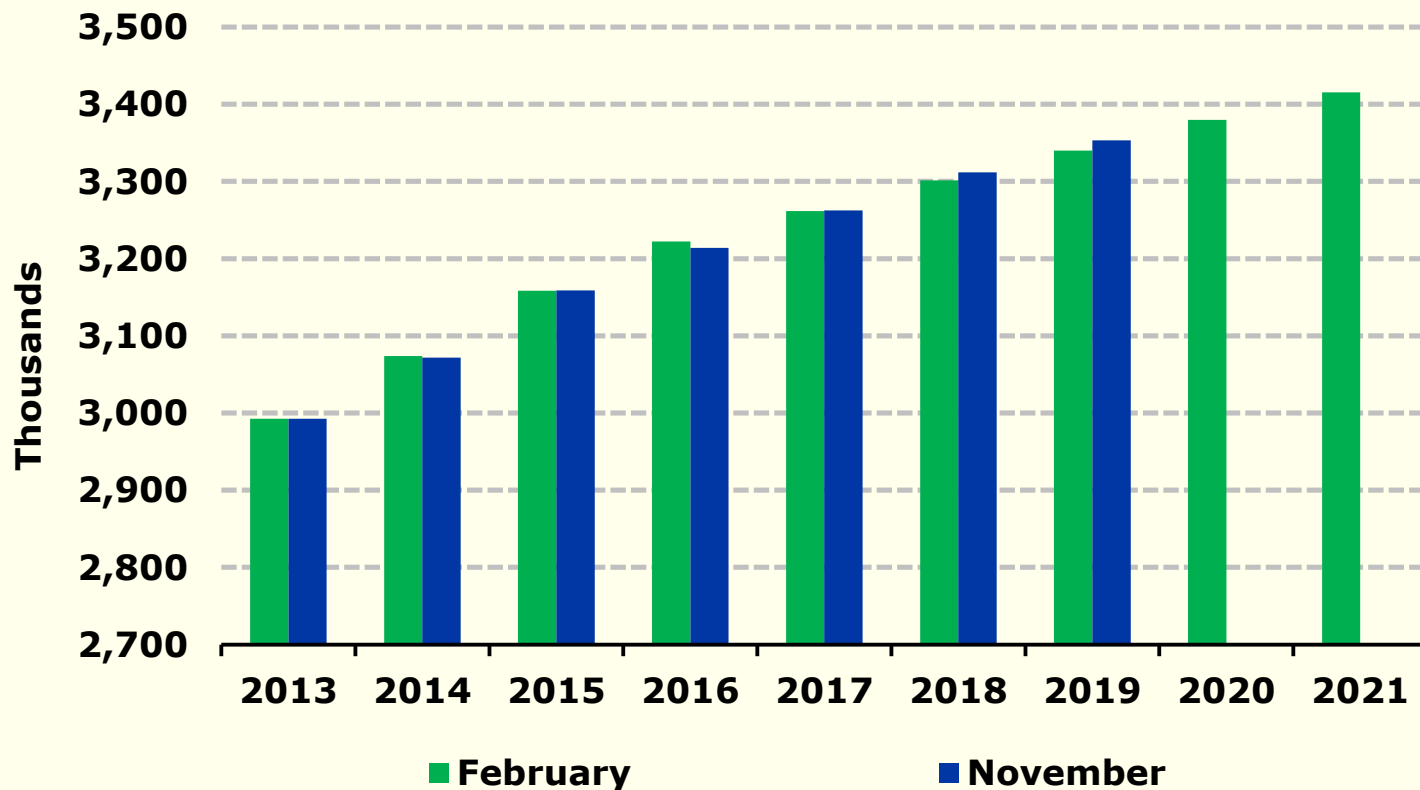
Source: ERFC February 2016 forecast; historical data through 2015Q3

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Washington employment forecast revised down slightly in 2017 - 2019

Washington Nonfarm Payroll Employment



Source: ERFC February 2016 forecast; historical data through 2015

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Washington Employment Trends

Washington
has gained
378,000
nonfarm jobs
since
February
2010

Employment Change since Trough (thousands)

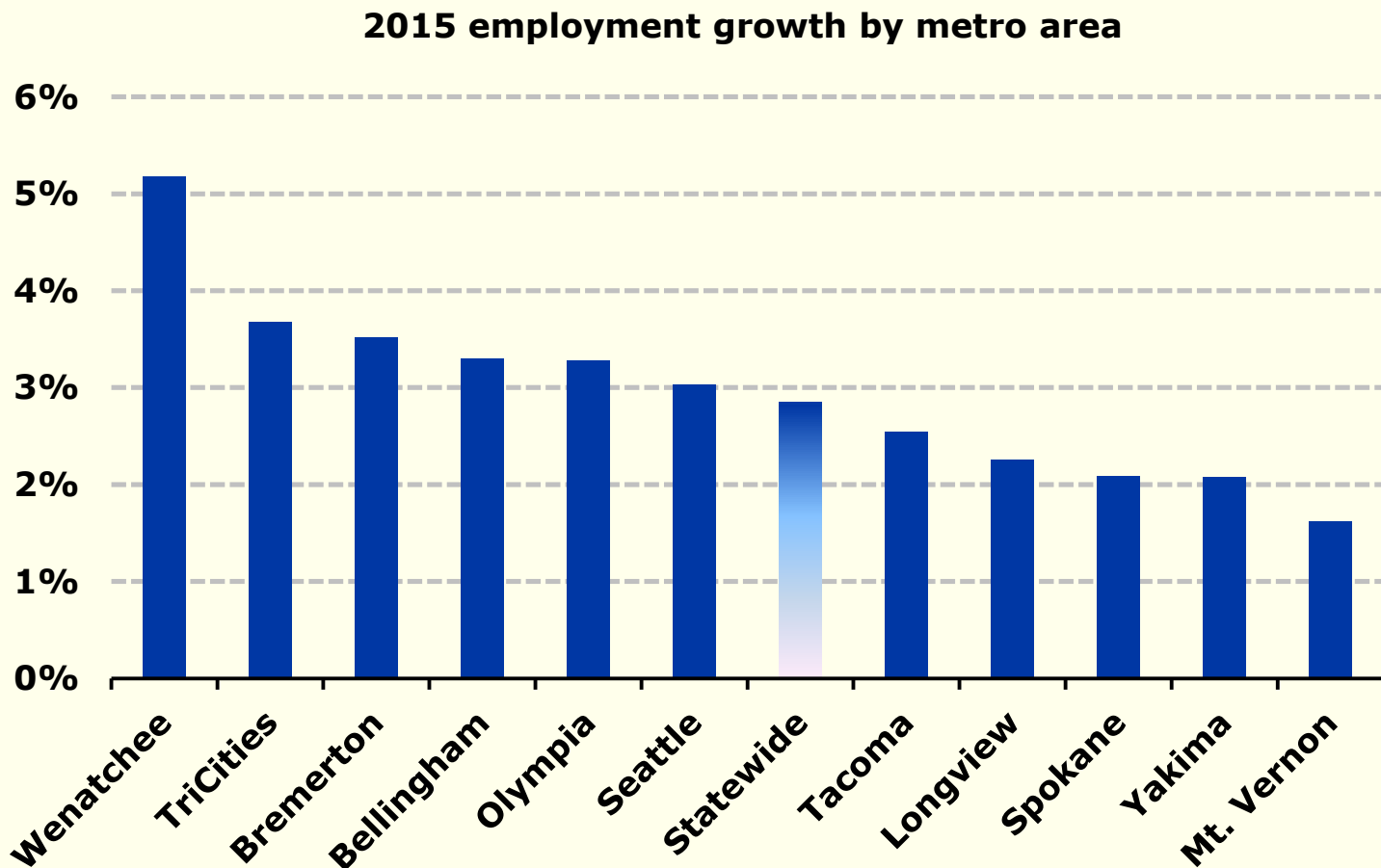


Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through Jan. 2016

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Employment growth varied widely across state metro areas

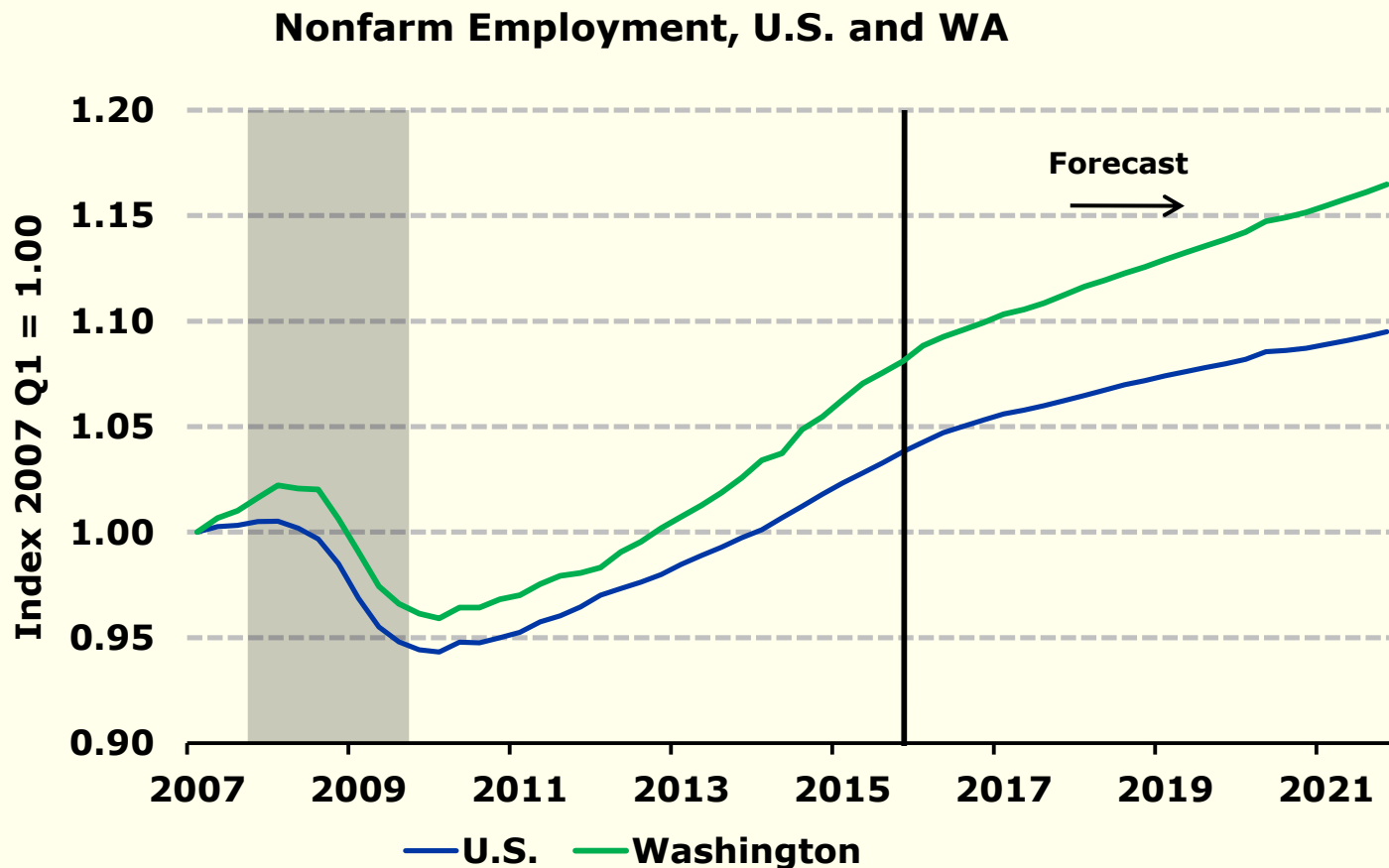


Source: WA State Employment Security Department

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Washington employment will continue to grow slightly faster than the U.S.

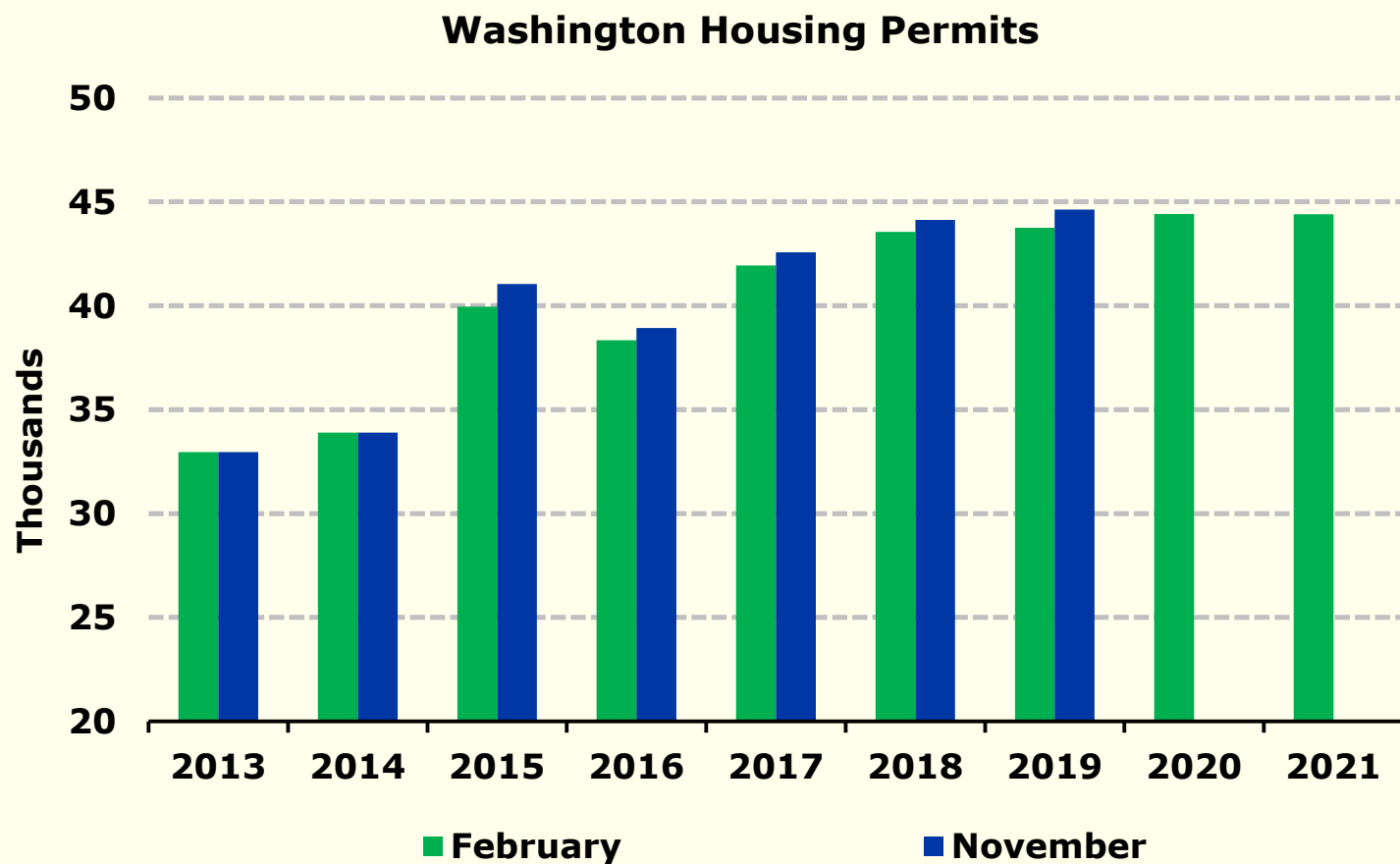


Source: ERFC February 2016 forecast; historical data through 2015Q4

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Washington housing permits forecast is slightly lower than in November

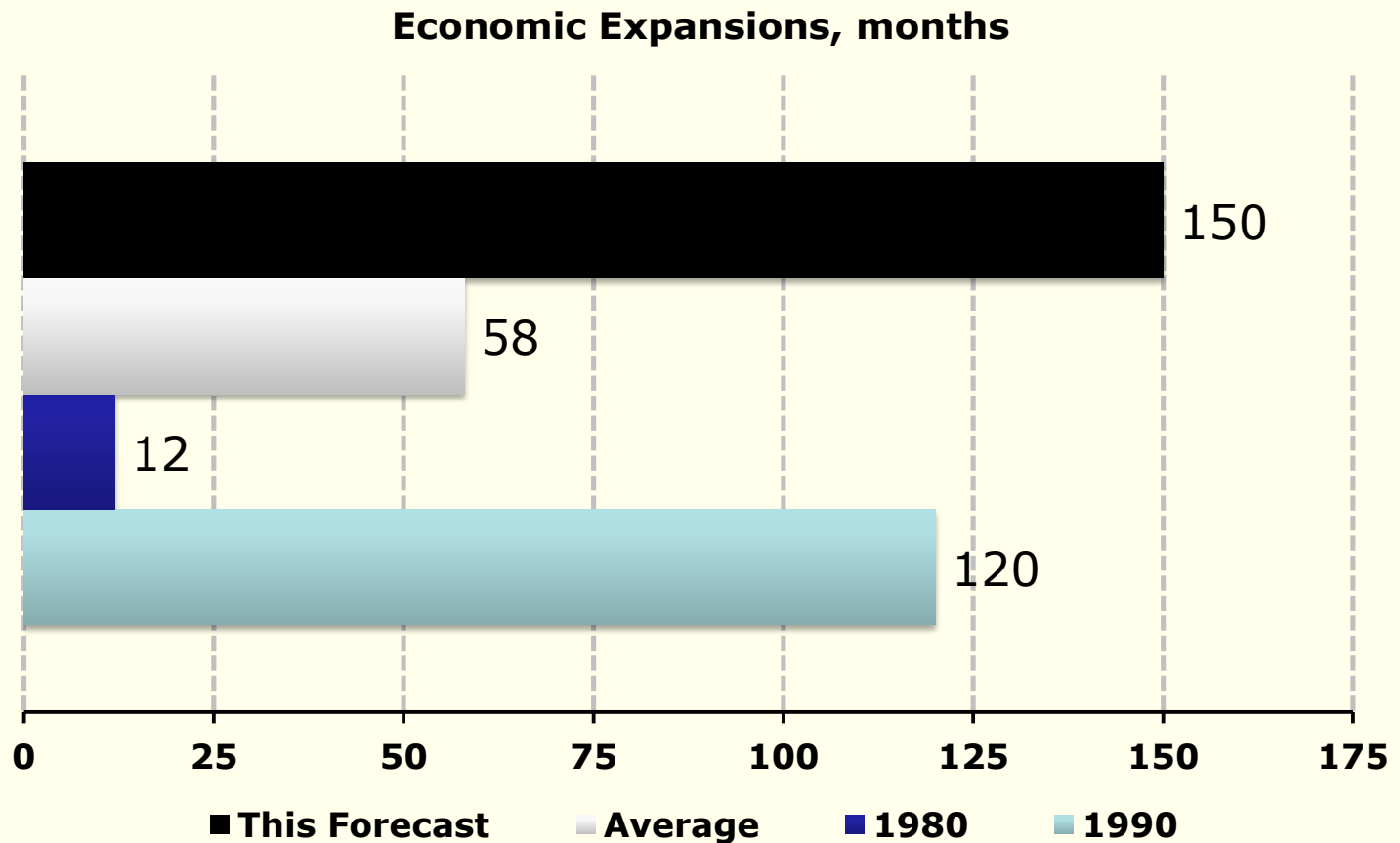


Source: ERFC February 2016 forecast; historical data through 2014

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U.S. Economic Expansions since 1945

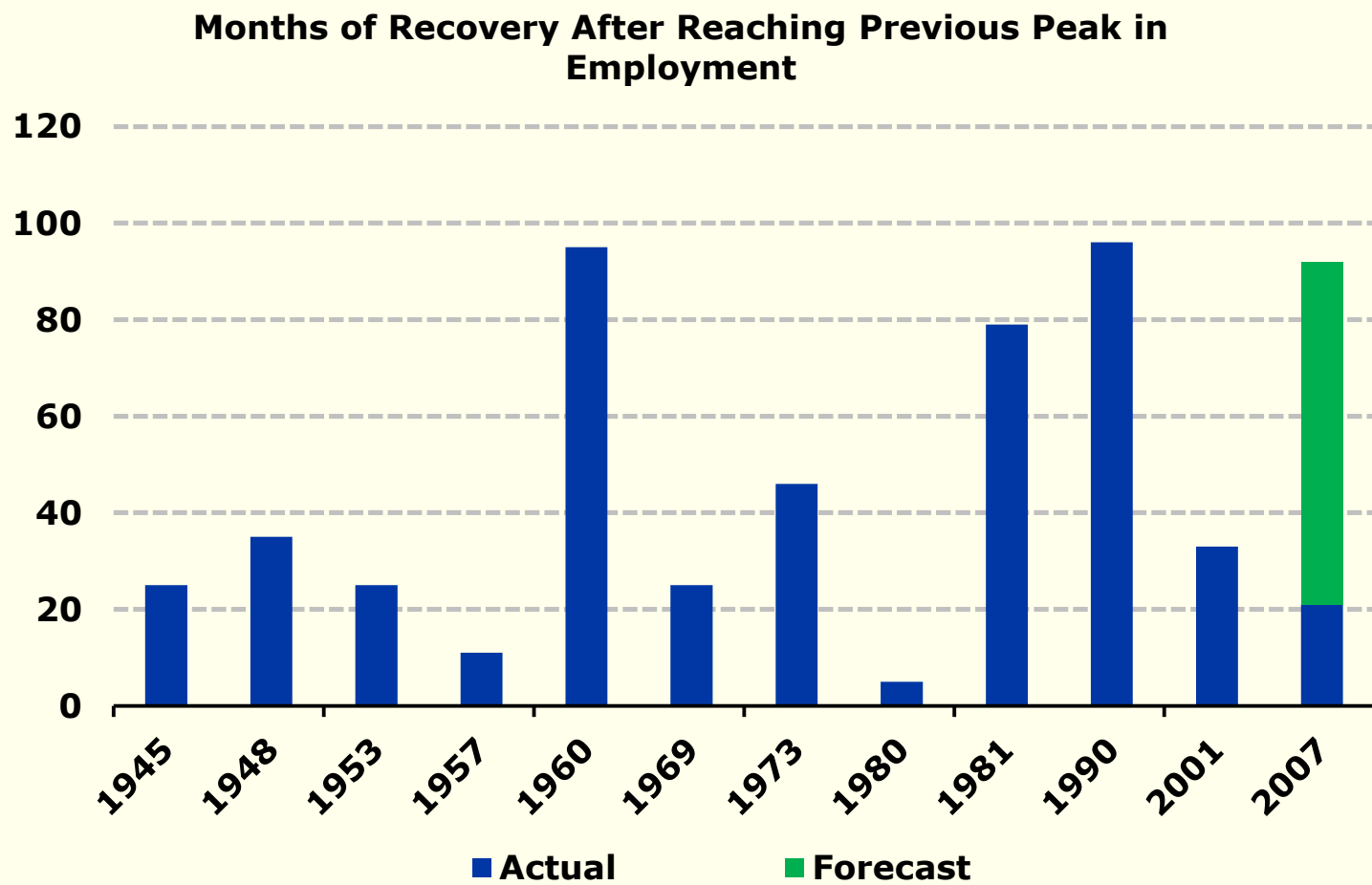


Sources: NBER, ERFC February 2016 Preliminary forecast

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Initial slow recovery points to extended expansion

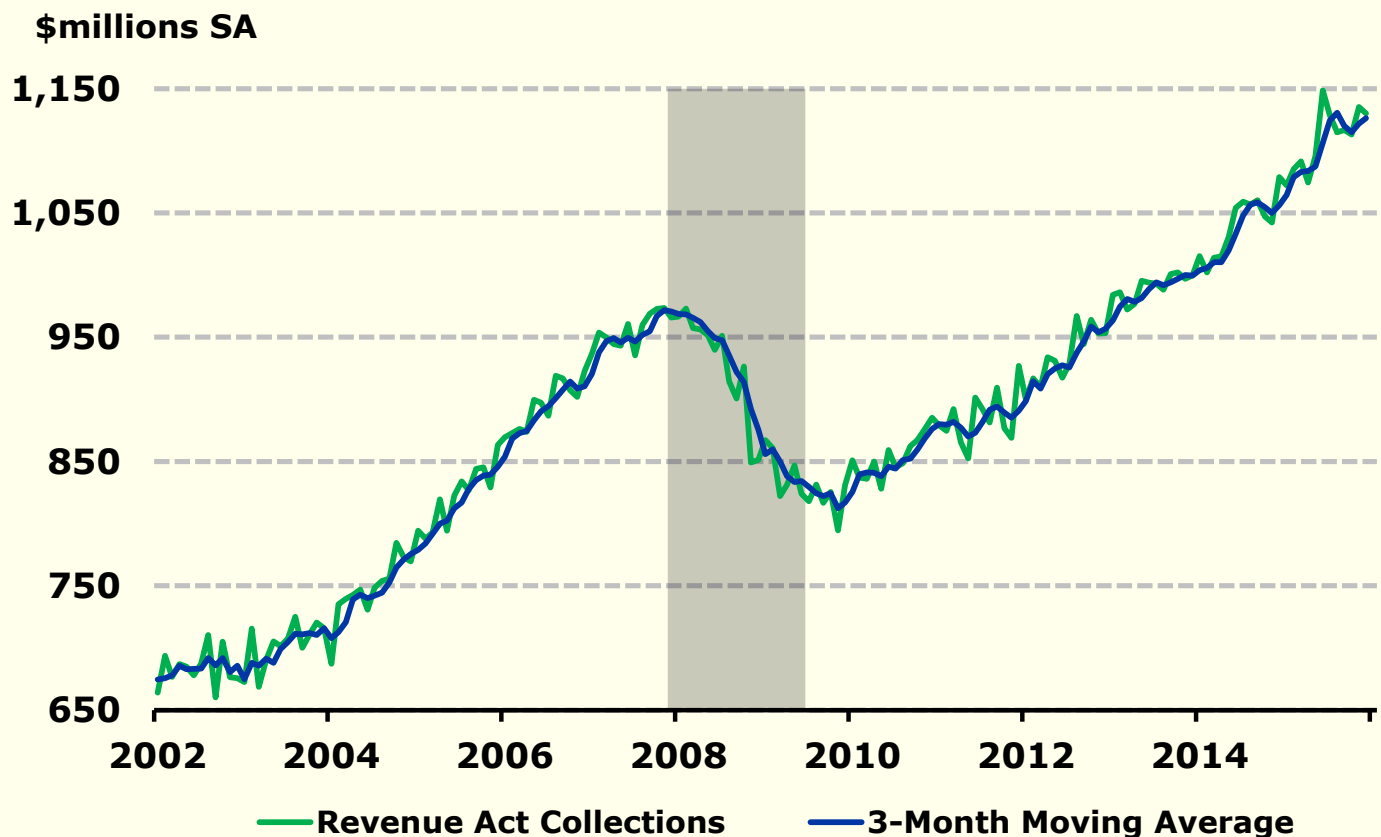


Sources: NBER, ERFC February 2016 forecast

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Revenue Act collections close to previous trend after spike in August collections



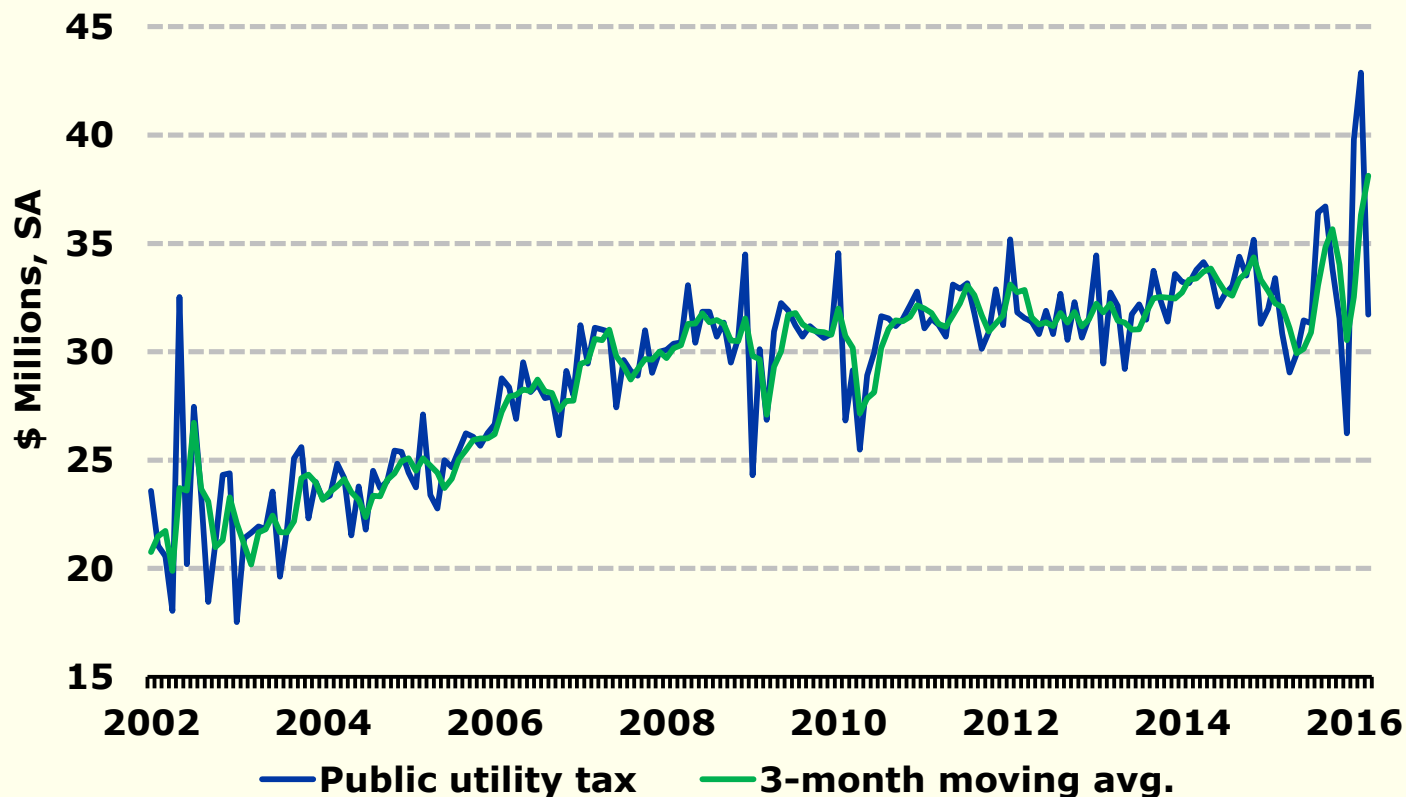
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2015 activity

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Public utility taxes accounted for 2.2% of GF-S revenue in FY 2015



Source: Dept. of Revenue; data through Mar. 2016

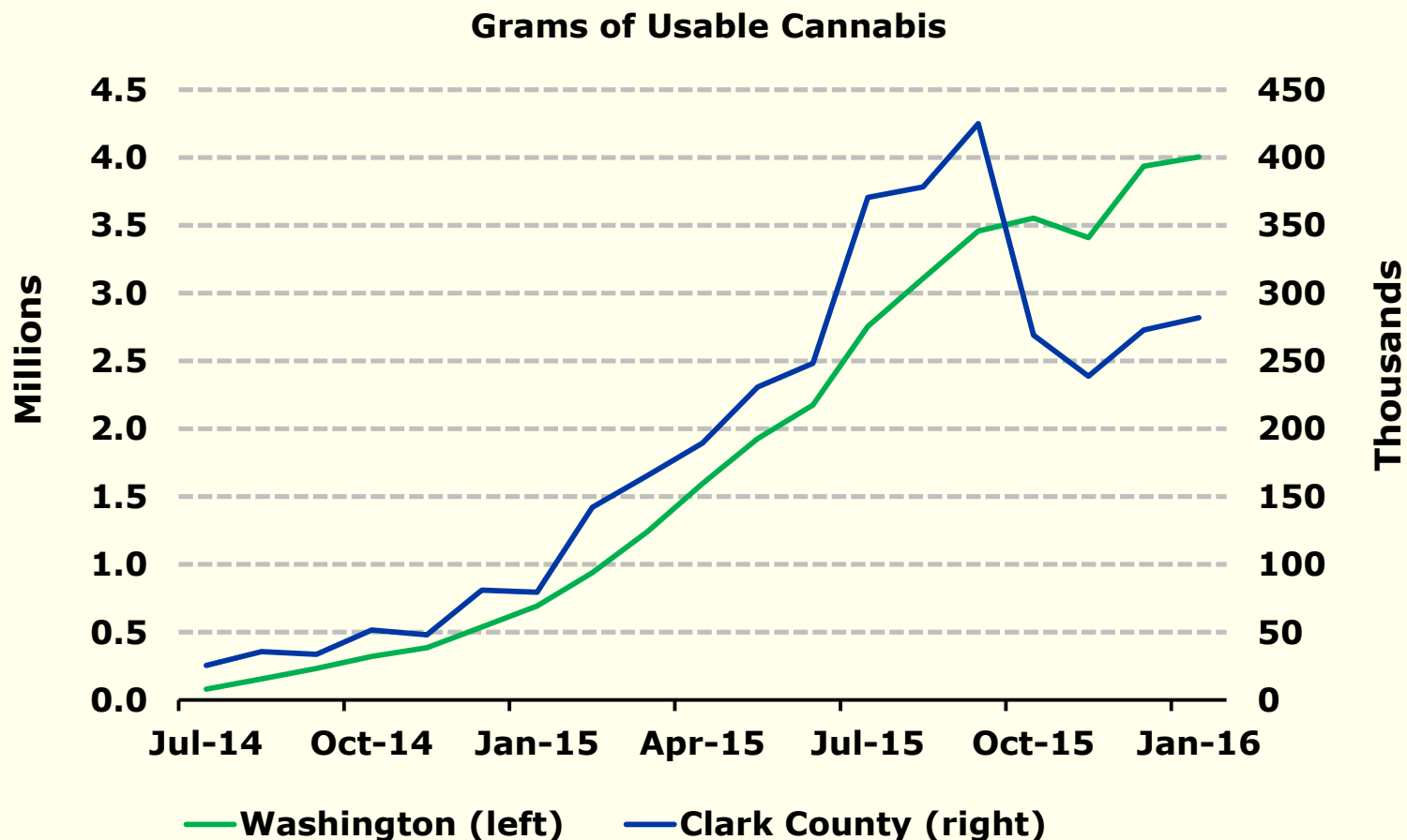
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Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12% of total sales by quantity.

In January, Clark County accounted for 7% of total sales by quantity.



Source: WA LCB; data through January 2016

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Conclusion

- The economic forecast expects slower growth in U.S. GDP, WA personal income and WA employment than in November
- We continue to expect the WA economy to outperform the U.S. by a small margin
- GF-S revenues are expected to grow 10.3% between the 2013-15 and 2015-17 biennia and 8.0% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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